



carbonenergy

Carbon Energy Limited | ABN 56 057 552 137

ASX Announcement

18 July 2017

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ABN 56 057 552 137

Carbon Energy (Operations) Pty Ltd

ABN 61 105 176 967

2016 Annual General Meeting (Held 18 July 2017) Chairman's Address

Carbon Energy (ASX:CNX) will present the attached Chairman's Address at the Annual General Meeting of Shareholders being held this morning at McCullough Robertson Lawyers, Level 11, Central Plaza Two, 66 Eagle Street, Brisbane, Queensland.

The meeting will commence at 10.00 Brisbane Time.

ENDS

For and on behalf of the Board



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Chairman's address to shareholders

Thank you for attending this, the 2016 Annual General Meeting which covers a year or more now that has been a very eventful year in the life of Carbon Energy.

This meeting is very important for the future of the Company. The resolutions are a mix of "business as usual" requirements carried over from before the Company went into administration in November 2016 as well as resolutions relating to the recapitalisation of Carbon Energy.

The Business of the AGM is as follows:

- to re-elect myself, Mr Peter Hogan as a Director (resolution 1);
- to elect Mr George Su as a Director (resolution 2);
- to approve the Company having an additional 10% placement capacity (resolution 3);
- to approve the adoption of an employee incentive plan (resolution 4);
- to appoint Grant Thornton Audit Pty Limited as the auditor of the Company (resolution 5);
- to adopt the remuneration report (resolution 6);
- to approve the proposed recapitalisation transaction (resolution 7) – this is discussed in further detail below;
- to approve the consolidation of the Company's share capital on the basis that every 100 Shares will be converted into 1 Share (resolution 8); and
- to approve the Company's entry into the Escrow Deed as part of the proposed recapitalisation transaction (resolution 9).

On 22 November 2016, the Company announced that it had appointed Ferrier Hodgson as Administrators of the Company, and two subsidiary companies, Carbon Energy Holdings Pty Ltd and Carbon Energy Operations Pty Ltd. These three companies are referred to collectively as "the Deed Companies".

On 9 March 2017, the Creditors of the Deed Companies approved a Deed of Company Arrangement (as amended, "DOCA") proposed by the Company's major Shareholder, Kam Lung Investment Development Corporation, to recapitalize the Deed Companies.

Following certain events that prevented the satisfaction of a condition precedent under the DOCA, the parties entered into further negotiations and on 23 May 2017 the Creditors of the Deed Companies approved certain amendments to the DOCA. Copies of the DOCA and the amending deed to the DOCA are included as Schedule 5 to the Explanatory Memorandum that accompanied the Notice of Meeting. The DOCA is conditional on, among other things, the approval of Shareholders. This is the reason that resolutions 7 and 9 are being put to Shareholders for approval at this meeting.

In summary, the key terms of the recapitalisation proposal (as amended) provide for the following:

- the Deed Companies will continue operations as going concerns;
- the Company will relist on the ASX, subject to necessary ASX approvals;
- Kam Lung will subscribe for, and the Company will issue to Kam Lung, secured convertible notes issued under a facility agreement between, amongst others, Kam Lung and the Company ("Kam Lung Facility") with an aggregate principal amount equal to the Subscription Amount (being \$8.3 million (to be advanced by Kam Lung at completion of the DOCA) plus the total of any Kam Lung Expenses at completion that are capitalised by the Company as described in section 7.7 of the Explanatory Memorandum);
- the Company will pay \$6.85 million to the relevant Pacific Road Group entities in consideration of the release and discharge of the debt under the Pacific Road Convertible Facility and the associated securities, being the amount of \$7 million less a costs contribution amount of \$150,000;
- Pacific Road will provide a \$1 million unsecured, interest-free loan ("Pacific Road Loan Facility") to the Company, which shall be repayable upon terms which are outlined in the Notice of Meeting.
- Kam Lung will provide \$3.85 million in new equity capital to the Company in exchange for a placement of Shares to Kam Lung which will result in Kam Lung holding 80% of all Shares immediately following completion of the recapitalisation; and

- Kam Lung has also made available to the Company \$1.94 million in interim funding \$200,000 of which was used to fund the administrators and the balance to fund operating costs of the Deed Companies during the Deed of Company Arrangement period through to completion of the recapitalisation. \$1.3 million of the interim funding will be repaid to Kam Lung from the proceeds of the Kam Lung Facility, the remaining \$640,000 will be repaid to Kam Lung from the proceeds of the Pacific Road Loan Facility.

Further details of the recapitalisation proposal are set out in section 7 of the Explanatory Memorandum.

I, the Non-Interested Director recommend that Shareholders vote in favour of resolutions 7 and 9. In considering how to vote on resolutions 7 and 9, it is important for Shareholders to keep in mind that:

- I, as the only the Non-Interested Director considers that there are no feasible alternatives to the recapitalisation proposal which will allow the Company to continue as a going concern and give Shareholders the potential to retain some value;
- I, as the only the Non-Interested Director considers that if the recapitalisation proposal is not approved, the Deed Companies will be placed into liquidation; and
- the Deed Administrators have advised that if the Deed Companies are placed into liquidation and subsequently wound up, they do not anticipate that any distribution will be made to Shareholders.

Independent Expert's conclusion

The Company has commissioned an Independent Expert's Report on certain aspects of the recapitalisation proposal. The Independent Expert has concluded that, in relation to each of those aspects, the Relevant Interest Acquisition and the Security Transaction are fair and reasonable to the Non-Interested Shareholders. A copy of the Independent Expert's Report is included in Schedule 7 to the Explanatory Memorandum.

In wrapping up my address to you I'd like to assure shareholders the Board's belief in Carbon Energy and the keyseam technology is as strong as ever. keyseam remains an effective and cleaner way to develop energy. Its role in accessing stranded coal reserves and unlocking new sources of energy is an extremely relevant and required solution in today's energy mix. The technology negates the need for capital intensive coal mines, coal processing and coal transport and can

provide the energy from the coal to a nearby market. This is precisely the type of energy currently being sought after in China.

The Board is thankful for the hard working, tenacious team that continues to support Carbon Energy.

I'd like to take a moment to reiterate our commitment to the protection of the environment and our people. We are proud to say that over the last year, we recorded no environmental incidents.

The safety of our employees, contractors and all those involved in our business is also of paramount importance. During the year, we experienced no lost-time injuries or reportable incidents.

On behalf of the Board and Management team, we would like to sincerely thank all our employees and contractors for their hard work during the last year. Thank you to you all.

Finally, I would like to thank you, our shareholders, for your continued support and perseverance. On behalf of the Board and Company, we are sincerely grateful for your ongoing support.

We are optimistic about the future and working successfully in China. I look forward to delivering you real value in the years ahead by developing Carbon Energy into a strong company on your behalf.

Peter Hogan
Chairman